Securities Industry Trends

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AN ANALYSIS OF EMERGING TRENDS IN THE SECURITIES INDUSTRY
Produced by the SIA Research Department

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CRITIQUING THE SEC STAFF REPORT

HIGHLIGHTS

1. The SEC Staff Report on the Securities Industry in 1978, published in July 1979, represents the SEC's most ambitious and comprehensive analysis of the securities industry to date. It is the first SEC report to utilize the new SEC/SIA firm categories, and it contains a wealth of financial data for each category. In this issue of Trends, key elements of the staff report are discussed and summarized.

2. Although 1978 was a year of record volume and revenues for the industry, profits and securities prices lagged behind. The SEC attributes the industry's failure to achieve record profits in 1978 to a closer link between marginal revenues and marginal costs resulting from negotiated commission rates. The fourth quarter 1978 decline in securities prices seems to be a better explanation.

3. Industry capital has grown more slowly than industry assets, with a resultant increase in leverage. The industry's debt/equity ratio was 14.7 at year-end 1978, as compared to 12.8 one year earlier and 7.2 five years earlier.

4. The report correctly notes the tendency of FOCUS to understate diversification outside the securities business. Revenues unrelated to the securities business are reported on FOCUS as only 2% of the industry's gross revenues. Inspection of the 10-Ks of the largest publicly held firms suggests that the figure may be as high as 8%.

5. The unfixing of commissions, the report states, has not accelerated the trend toward industry concentration. This conclusion is derived from a series of regression equations that are not shown in the report. The SEC staff fails to take account sufficiently of the very poor market conditions experienced in the final two years of fixed rates or of the highly favorable market conditions that prevailed in the first two years of competitive rates.

6. Discount brokers, the SEC estimates, have reached a 4.2% share of retail share volume. Advertising commission prices roughly half the old fixed rate schedule, these firms achieved the highest return in the industry in 1978.

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Introduction

The SEC Staff Report on the Securities Industry in 1978, published in July 1979, represents the most ambitious and comprehensive analysis of the securities industry conducted by the SEC to date. The SEC document reviews the financial experience of the industry in 1978 and discusses those economic variables which seem to have impacted most strongly upon the industry. More importantly, the data base provided in this report is broader than any previously published by the SEC. For the first time, observers of the securities industry can locate in one source much of the financial data covering the various segments of the securities industry.

The data contained in the staff report is particularly helpful in expanding the information on OTC and regional exchange broker/dealers and covers new areas, such as stock exchange specialists. In addition, there is further analysis of trends in concentration and diversification in the industry, and a new classification of firm groups resulting from an SEC/SIA joint effort.

In this issue of Trends, an effort is made to summarize key elements of the staff report and to review conclusions, whether or not they are consistent with SIA's own analysis. Although SIA takes exception to some of the conclusions presented in the report and questions the accuracy, for instance, of the commission rate data, the SEC report provides a great service to the industry. Familiarity with the report's key findings, in our opinion, is essential to all those interested in the health of the securities industry.

Profitability

The staff report begins with a discussion of the economic environment in which the securities industry operated in 1978, concluding that "1978 was a good year but not an outstanding one." The second and third quarters broke all existing volume records on major exchanges, while the fourth quarter saw the return of double-digit inflation, rising interest rates and falling securities prices. Exchange volume and industry revenues were at record levels in 1978, but stock prices and industry profits lagged behind.

The 1978 experience of record revenues that failed to produce record profits is explained by the SEC in terms of the impact of negotiated rates. Due to competition in the pricing of brokerage services, the report explains, marginal revenues for the industry have been brought more nearly into line with marginal costs, lessening the impact on profits of sudden spurts of trading activity. It is suggested that the industry's profit margins -- and, hence, profitability -- have become less volatile since 1975. Both of these conclusions, in SIA's opinion, are questionable.

The report presents a regression equation that explains the industry's profit margin in terms of volume and stock price trends. The equation indicates that the importance of volume as a determinant of profit margins has diminished since 1975, while that of stock price trends has increased. This finding is consistent with the observed rise in the importance of principal activities and the declining importance of agency business. The report fails to note the connection between increased principal activities and business risk. The disappointing profit levels of 1978, also, could be more correctly attributed to the fourth quarter drop in securities prices than to any post-Mayday restructuring of the commission business. Given the industry's greater automation in recent years, there is no reason for incremental costs to be more closely related to incremental revenues today than was true in the past. The only major variable costs are RR compensation and clearance and floor brokerage. If anything, costs are more "fixed" today than in the past.

The greatest revenue increases, the report notes, were in revenue items that cause a parallel increase in expenses -- higher commissions mean higher RR compensation expenses, for instance, and higher margin interest revenues mean higher interest expense. The report compares the industry's 1978 experience with that of 1975, a more profitable year, noting that "the revenue expansion enjoyed by NYSE member firms in 1978 easily surpassed that of the dramatic recovery in 1975." Negotiated commissions were in effect for all but the first four months of 1975, but institutional discounting did not reach present levels in that year. The main difference between 1975 and 1978, however, is that interest rates were falling throughout 1975, while just the reverse was true in 1978. The expense picture for 1978 was dominated by interest expense, incurred to finance both customer margin accounts and securities positions. The degree to which rising margin interest revenues are cancelled by rising interest expense is recognized in the report, but the full impact of rising interest rates on trading and investment profits is not.

The report also spends a considerable amount of time comparing the 1978 financial performance of the industry with its 1977 performance. This is unfortunate because 1977 was a mediocre year for the industry. If the Commission's concern is whether capital will stay committed to the securities business, it is more appropriate to compare the securities industry's rate of return in any one year with what can be earned elsewhere.

An interesting SEC finding, one consistent with SIA's own research, is that larger securities firms do not achieve superior returns. Whether ranked by gross revenues, equity or total capital, the smallest size category achieved the highest median return.

Balance Sheet

The balance sheets of securities firms underwent major changes in 1978. The industry's total assets, at the end of the fourth quarter of 1978, amounted to $53.9 billion, up from $43.6 billion

one year earlier and $20.7 billion five years earlier. Most of this asset growth relates to three asset categories -- customer receivables, trading and investment accounts and securities purchased under agreements to resell. This asset growth has not been matched by a corresponding increase in capital, with the result that the industry's debt/equity ratio increased from 7.2 at year-end 1973 to 14.7 five years later. A balance sheet for all NYSE firms dealing with the public is presented below:

UNCONSOLIDATED BALANCE SHEET OF NYSE MEMBER FIRMS
DOING A PUBLIC BUSINESS. YEAR END 1978.
(millions of dollars)

ASSETS		LIABILITIES	
Cash	$ 984	Banks Loans Payable:	
Receivables from Broker/Dealers and Clearing Corporations	5,109	Secured by Firm Collateral	$ 4,337
Receivables from Customers	15,868	Secured by Customer Collateral	5,123
Long Positions	15,238	Securities Sold Under Repurchase Agreements	16,306
Securities Purchased Under Agreements to Resell	14,018	Payables to Broker/Dealers and Clearing Organizations	4,676
Exchange Memberships	108	Payables to Customers	7,202
Other Assets	2,577	Short Positions in Securities & Commodities	6,610
TOTAL ASSETS	$53,902	Accounts Payable & Accrued Liabilities	4,970
		Other Liabilities	288
		Subordinated Liabilities	963
		Total Liabilities	50,475
		Owner's Equity	3,427
		TOTAL LIABILITIES & OWNER'S EQUITY	$53,902

Of the three major asset accounts, customer receivables are derived from retail business, involving margin loans, while long positions and securities purchased to resell are more dealer-related. Customer receivables represent less of a new trend than either long positions or repurchase agreements, but it is an important source of revenue both directly, through interest receipts, and indirectly, as a means of stimulating agency business. The industry's commitment to long positions is largely a response to institutional investors' needs for liquidity. It would be helpful if there were a more detailed breakdown of the long positions -- equity, corporate debt, municipals, U.S. government, etc.

Industry assets currently include $14.0 billion of securities purchased under agreements to resell (reverse repos). Reverse repos provide an outlet for temporarily idle funds, entitling the purchaser to a stated rate of interest when the securities are resold.

On the liabilities side, parallel developments have taken place. Securities sold under agreements to repurchase, at $16.3 billion, comprise the largest single liability item. Repurchase agreements are a financing device of institutional dealer firms. Bank loans secured by customers' collateral are used to finance margin loans, while those secured by firm collateral finance proprietary positions. Between year-end 1977 and year-end 1978, bank loans declined from 28% to 19% of the industry's total liabilities.

The increase in leverage has been more pronounced among firms doing an institutional/dealer business. Large investment banking firms were the most leveraged at year-end 1978, with a 26.2 debt/equity ratio. The institutional category was second, with a ratio of 18.8. National full line firms, in contrast, had a ratio of only 12.4, up from 8.0 one year earlier.

Diversification

The industry's earliest attempts to diversify, as the report correctly notes, did not take firms outside traditional securities activities and were responses to the dwindling importance of agency business. SIA agrees that early diversification efforts were demand-pull in nature rather than conscious attempts to offer new products or cultivate new customers. We disagree, however, with the report's conclusion that diversification outside the securities business is insignificant. The recent forays by several publicly owned securities firms into timber and oil exploration, vineyards and real estate do not seem very closely related to traditional securities activities.

The report's appraisal of diversification is derived from FOCUS, which reports revenues unrelated to the securities business amounting to only 2% of the industry's 1978 gross revenues. FOCUS, however, tends to understate diversification, as the staff report acknowledges, by its exclusion of non-securities affiliates. After inspection of the 10-Ks of the largest publicly held securities firms, the SEC staff concluded that non-securities revenues could account for as much as 8% of the 1978 gross revenues of the largest publicly held firms. These non-securities revenues are derived largely from such activities as leasing, insurance, real estate and tax shelters. The largest privately held firms, the report points out, are believed to have undertaken comparable efforts at diversification, although hard data concerning the extent of their activities are not publicly available.

We believe that securities industry diversification, at least that involving the largest firms, has undergone a qualitative change recently. The 8% figure mentioned above is significantly

higher than the 2% indicated in FOCUS for non-securities revenues, and the movement into new business lines seems to be gathering strength. Over the longer term, the securities industry will be unable to retain invested capital if it continues to provide an unacceptably low risk-adjusted rate of return. For the large publicly held firms, capital could be expected to flow out of the brokerage/investment banking business into non-securities affiliates earning more acceptable returns. For the smaller, closely-held firms, withdrawal of principals' capital would be the more likely development.

Concentration

This report includes a description of regression equations that attempted to measure the causal relationship between the unfixing of commission rates and the trend toward increased concentration in the industry. On the strength of the regression equations, the staff concluded that the unfixing of commissions has had no significant impact upon the trend towards concentration. It is unfortunate that the regression equations themselves are shown nowhere in the report.

Although the regression equations are not shown, certain facts concerning them are given. Quarterly data for the period 1972-1978 are used, and concentration is defined as the largest ten firms' market share in commissions, underwriting revenues, gross revenues and equity capital. Our first and probably strongest objection to the analysis is the short time period over which concentration is measured, only 13 quarters under fixed rates and 15 quarters under competitive rates. This is too short a period from which to derive any meaningful conclusion.

In our opinion, the analysis fails to take account sufficiently of the extremely poor market conditions that prevailed in the final two years of fixed rates or of the highly favorable market conditions the industry experienced in the first two years of negotiated rates. What appears to be a simple trend over time could be something very different if seen in the light of market conditions. The report states that an effort was made to filter out the effects of market conditions as measured by share volume, net income before taxes or profit margins. Because the equations are not shown, however, we remain skeptical.

Two further objections involve the concentration measure selected and the lack of a lag variable. SIA's research indicates that greater consolidation has taken place among the second fifteen than among the largest ten firms. For this reason, the market share of the largest twenty-five firms would be a more useful measure. As regards the time lag variable, it seems clear that all the economic consequences of a single year do not become visible during that year. For example, much of the consolidation that took place during 1972, a relatively prosperous year, can undoubtedly be attributed to the earlier paperwork crisis and bear market of 1969-70 from which the industry was recovering.

It is regrettable that the report does not more thoroughly document a finding of such great importance to the industry. It is interesting that a footnote on page 57, speaking of institutional research houses, does observe that "the rapid decimation of their ranks immediately after the unfixing strongly suggests that they greatly underestimated the impact [of negotiated rates]."

Commission Rates

The post-Mayday restructuring of commissions, the report states, was substantially completed by January 1978. Except for slight increases during the second and third quarters, a period of strained capacity, commission charges did not change significantly throughout 1978. The report's findings are based upon the SEC's monthly survey of commission charges which covers an estimated 50% of total share volume on all exchanges. There is a statement in the report that on orders below 200 shares individuals now pay about 5.4%, on average, more than the old fixed rate. Between 200 and 999 shares, the SEC finds that rates are virtually the same for individuals as they were in April 1975. The SEC explains that the observed increases for small orders are generally much less than the increase implied by comparing quoted rates today with the old fixed rates because quoted rates may actually be rigid only for small, inactive or new accounts. While most retail accounts may be small, inactive or new, most of the retail business comes from large, active and established accounts.

We think this involves some heroic explanations. We continue to believe that a good deal of the data being received by the SEC does not adequately distinguish between individual and institutional orders, particularly on small orders. This was a constant problem with the New York Stock Exchange's Public Transaction Survey. We agree that there may be considerable differences between the quoted rates and the rates actually paid by large and active retail accounts. Nevertheless, all the surveys reported in the trade press and the newspapers agree that more investors are paying higher rates today than under fixed rates, and the increase is undoubtedly greater than 5.4% for orders under 200 shares. Our criticism of the SEC findings has nothing to do with value judgments. Rather, we feel it very important, as a matter of record, that the impact of negotiated rates on individual orders be accurately reported. Obviously, we believe the increases are greater than those reflected in the SEC report.

Specialists

For the first time, the staff report contains detailed information concerning the operations of specialists on the NYSE, Amex and four regional exchanges. The data cover the specialist operation (as opposed to the overall firm effort) of every firm doing a specialist business on any one of the six exchanges. Pre-tax profit margins, the staff report says, are among the highest in the industry and very volatile. In 1978, these margins were

33.5%, 28.2% and 33.8% for specialists on the NYSE, Amex and regional exchanges, respectively. Specialists' revenues are derived from floor brokerage commissions and trading profits. Given below are the 1978 results for NYSE, Amex and regional exchange specialists:

Revenues and Profits of Specialists in 1978
($ Millions)

	NYSE	Amex	Regional
Floor Brokerage	$ 72.4	$13.8	$ 1.8
Trading Profits	65.3	11.2	14.2
Total Revenue	170.3	30.1	20.4
Net Income*	57.1	8.5	6.9
Return on Positions	22.7%	14.7%	18.4%

* Pre-tax.

The need to maintain trading inventories exposes specialists to a high degree of market risk, which they usually hedge with short positions amounting to roughly 20% of long positions.

Since the unfixing of floor brokerage rates in May 1975, the rates charged by NYSE specialists have declined approximately 24% from the old fixed level. In 1978, this represented roughly $2 million a month in revenues foregone and a cost reduction for upstairs brokerage firms.

Discount Brokers

For the first time, detailed information on discount brokers' operating results is provided in the report. There were at least 55 discounters at year-end 1978; the NYSE now has 17 members classified as discounters. These firms rely heavily on mass media advertising and execute unsolicited orders, and advertise retail commissions generally at half the old fixed rate schedule. Although discount brokers have only 0.3% of the equity capital and 0.6% of gross revenues of all NYSE firms doing a public business, they have obtained a 4.2% share of retail volume. Market share information for 1977-1978 is presented below:

Discount Brokers
Commission Revenue and Estimated Retail Market Share
(Dollars in Millions)

	1977				1978			
	I	II	III	IV	I	II	III	IV
Commission Revenue								
Industry Total	$838	$781	$785	$808	$742	$1,262	$1,292	$ 984
Retail Portion*	$572	$521	$530	$552	$512	$ 873	$ 916	$ 684
Discount Brokers' Commission Revenue*	$5.8	$5.8	$6.5	$8.4	$7.9	$ 14.7	$ 16.1	$14.6
Discount Brokers' Retail Volume Share*	2.0%	2.2%	2.5%	3.0%	3.1%	3.4%	3.5%	4.2%
Number of Discount Brokers	43	44	46	48	49	51	53	55

* SEC estimate.

Discounters are distinguished by an extremely high dependence on commission income -- 87.8% and 85.7% of gross revenues for 1977 and 1978, respectively. They are also distinguished by having achieved, for the same two years, profit margins and returns on equity far above the industry norm. Given below are these pre-tax returns, on a quarterly basis, for 1977-1978:

	1977				1978			
	I	II	III	IV	I	II	III	IV
Profit Margin	6.9%	7.9%	3.7%	3.1%	7.7%	23.3%	24.0%	3.5%
Return on Equity (Annualized)	38.4%	43.4%	21.4%	54.4%	47.2%	175.9%	150.4%	21.0%

The staff report emphasizes the degree to which the above returns exceed the industry norm but fails to note the volatility of the discounters' own returns, which certainly rivals the industry's profit volatility. The percentages of discount firms showing a quarterly loss are comparable to the industry-wide figures:

Percentage of Firms Showing a Quarterly Loss, 1977-1978

	1977				1978			
	I	II	III	IV	I	II	III	IV
Discounters	29%	31%	41%	36%	38%	17%	4%	49%
All NYSE Firms Doing a Public Business	30%	28%	33%	27%	41%	9%	6%	47%

A major difference between the earnings volatility of discounters and that of other firm categories is that the discounters' volatility seem to stem from operating -- as opposed to financial -- leverage. Despite the SEC's contention that competitive rates have caused marginal revenues to move closer to marginal costs, for discounters, at least, the two are far apart. Inspection of the expense data for discounters shows variable costs to be relatively low, the largest component being floor brokerage and clearance.

RR compensation is the industry's most important variable cost, having amounted to 18.3% of 1978 gross revenues.* For the discounters, in contrast, RR compensation was only 2.8% of 1978 gross revenues. This is in keeping with their policy of soliciting orders through mass media advertising rather than through the efforts of a retail sales force. Cost changes lag revenue changes for the discount brokers due to RR compensation practices. Also, because discount brokers largely avoid margin lending, a business in which interest revenues and interest expenses are closely linked together, the relationship between their marginal revenues and marginal costs is more remote than for firms active in margin lending.

The SEC's data on discount brokers are important to industry observers. The discounters' future market share experience will show what percentage of retail customers are trading-oriented investors willing to do without the traditional brokerage services in exchange for substantial discounts.

Conclusion

There is much more to praise than to criticize in the SEC staff report. We have singled out certain points above because these differences in interpretation and emphasis may be important in future deliberations at the SEC. However, we are in complete agreement with many other findings and statements contained in the report. For example, the conclusion that profitability does not increase with firm size is entirely consistent with our own analysis. Furthermore, both the SEC and SIA have demonstrated that profit margins and return on equity are more dependent on product and customer mix than on other variables.

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* Interest expense, though of comparable magnitude for the industry, differs from RR compensation in that it is not precisely a variable cost. Although interest expense varies with changes in margin lending activity and inventories held, it also responds to interest rate fluctuations and, to that extent, varies independently of changes in the level of business activity.

The SEC staff report is also to be commended for the depth and breadth of its data. Not only is there new data on discounters and specialists, but the information on other segments of the industry is very comprehensive. We believe that data on discounters and specialists are particularly important in tracking emerging trends in the industry. The 1978 report was the first SEC study to utilize the new SEC/SIA firm categories, and the income statement and balance sheet information for each category is of great value to industry observers. In these and other respects, a tremendous effort has been made by the SEC to meet earlier data requests by the SIA and others.

All in all, we applaud the Commission and staff for their effort and dedication. They have substantially improved both the format and the content of their report. We encourage the SEC to continue its efforts in this regard, and we recommend the staff report as required reading for all individuals interested in the securities industry.

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SECURITIES INDUSTRY STATISTICS

VOLUME

	September 1979	YEAR-TO-DATE 1979	September 1978	YEAR-TO-DATE 1978	% CHG. Y-T-D 1979-1978
AVERAGE DAILY SHARE VOLUME ON					
NYSE (MILS.)*	37.6	31.4	33.6	29.0	8.3%
AMEX (MILS.)*	5.4	4.1	5.7	3.9	5.1
NASDAQ (MILS.)*	15.4	13.8	14.0	11.2	23.2
REGIONAL EXCHANGE (MILS.)*	Not Available	---	3.4	3.1	---
DOLLAR VALUE OF SHARES TRADED ON					
NYSE (MILS.)	21,647	172,717	19,716	153,150	12.5
AMEX (MILS.)	2,115	13,558	2,143	11,206	21.0
ODD-LOT SHARES PURCHASED ON NYSE (THOUS.)	4,249	42,544	4,762	42,073	1.1
ODD-LOT SHARES SOLD (INCLUDING SHORT SALES) ON NYSE (THOUS.)	10,171	92,039	10,040	85,132	8.1
NYSE BLOCK VOLUME AS A PERCENT OF TOTAL SHARES TRADED	26.8	26.6	21.0	23.9	---
CONTRACTS TRADED (THOUS.)					
CBOE OPTIONS	3,277	25,204	3,036	25,137	0.3
AMEX OPTIONS	1,646	12,158	1,307	10,963	10.9
COMMODITY	6,172	57,266	4,437	41,311	38.6
CBOE and AMEX OPTION VOLUME as a % of TOTAL NYSE VOLUME	69%	63%	69%	66%	---

** MONTHLY AVERAGE*

YIELDS

(MONTHLY AVERAGES)

	OCTOBER 1979	OCTOBER 1978	BASIS POINT CHG. 1979-1978
BOND BUYER INDEX (20 BOND)	7.08	6.22	86
CORPORATE BOND YIELDS (MOODY'S)			
Aaa CORPORATE	10.13	8.89	124
Baa CORPORATE	11.40	9.59	181
RATIO Aaa CORPS. TO Baa CORPS.	0.89	0.93	---
MUNICIPAL BOND YIELDS (MOODY'S)	6.25	5.53	72

PRICES

(END OF MONTH)

	OCTOBER 1979	OCTOBER 1978	PERCENTAGE CHANGE
DOW JONES INDUSTRIALS	815.70	792.45	2.9%
STANDARD & POOR'S 500	101.82	93.15	9.3
NYSE COMPOSITE	57.71	51.67	11.7
AMEX MARKET VALUE INDEX	203.64	136.75	48.9
VALUE LINE COMPOSITE	110.43	94.49	16.9
NASDAQ COMPOSITE	135.53	111.12	22.0

MUTUAL FUNDS
(DOLLARS IN MILLIONS)

	September 1979	Year-to-Date 1979	September 1978	Year-to-Date 1978
NET SALES*	-246.0	-1,816.1	-211.8	-1,376.9
NET PURCHASE OF COMMON STOCK*	-330.6	-2,601.3	-191.3	-1,152.8
NET PURCHASE OF OTHER SECURITIES*	- 78.9	689.9	4.6	- 449.6
MUTUAL FUND CASH POSITION	9.0%	---	7.8%	---

*EXCLUDES MONEY MARKET, MUNICIPAL BOND AND OPTION FUNDS

MARGIN DEBT

	September 1979	September 1978	Percentage Change
MARGIN DEBT OUTSTANDING ($MILS)	12,000	12,400*	-3.2%
NET CHANGE IN MARGIN DEBT ($MILS)	-60	660	---
% OF ACCOUNTS WITH EQUITY UNDER 40%	10	12	---

* ALL TIME HIGH

UNDERWRITING
(DOLLARS IN MILLIONS)

	September 1979	Year-to-Date 1979	September 1978	Year-to-Date 1978	Absolute Chg. Year-to-Date	Percentage Chg Year-to-Date
CORPORATE FINANCING (Gross New Issues)						
Total	3,600	28,007	2,493	23,674	4,333	18.3%
Competitive	863	4,833	534	5,728	-895	-15.6
Negotiated	2,737	23,174	1,959	17,946	5,228	29.1
Common Stock	647	3,876	692	4,382	-506	11.5
# Of Common Stock Issues	34	223	37	198	25	12.6
Preferred Stock	191	1,390	98	1,490	-100	- 6.7
# Of Preferred Stock Issues	6	39	2	33	6	18.2
Corporate Debt	2,761	22,741	1,703	17,802	4,939	27.7
# Of Corporate Debt Issues	35	267	38	290	- 23	- 7.9
MUNICIPAL FINANCING* (Gross New Issues)						
Total	4,799	46,801	4,225	52,376	-5,575	-10.6%
Notes	2,534	16,974	1,936	17,313	-339	- 2.0
Bonds	2,265	29,827	2,289	35,063	-5,236	-14.9
# of Bond Issues	302	3,802	322	3,852	- 50	- 1.3
Negotiated Bonds	1,080	15,623	970	18,753	-3,130	-16.7
Revenue Bonds	1,490	20,267	1,530	21,357	-1,090	- 5.1

*Preliminary Figures

FINANCIAL DATA FOR NYSE FIRMS DOING A PUBLIC BUSINESS
(MILLIONS OF DOLLARS)

	Second Quarter 1979	Second Quarter 1978	Percent Chg. 2nd Q. 1979 -2nd Q. 1978	First Quarter 1979	First Quarter 1978
REVENUE					
SECURITIES COMMISSION INCOME	998.9	1,118.1	-10.7%	857.5	639.6
REALIZED AND UNREALIZED GAIN OR LOSS IN TRADING AND INVESTMENT	675.5	436.5	54.8	624.3	329.3
PROFIT OR LOSS FROM UNDERWRITING AND SELLING GROUPS	189.2	201.6	- 6.2	173.6	145.2
TOTAL REVENUE	2,703.2	2,386.4	13.3	2,430.7	1,652.9
TOTAL EXPENSES	2,417.9	2,059.7	17.4	2,197.0	1,634.0
NET INCOME BEFORE TAXES	285.3	326.7	-12.7	233.7	18.8
PERCENT OF FIRMS SHOWING LOSS	13.7	9.0	---	18.6	40.6

SOURCE: FOCUS REPORT X-17A-20

RECENT INTERESTING READING AND STATISTICAL MATERIAL

ITEM	DESCRIPTION	SOURCE
Are OPEC Financial Holdings a Danger to U.S. Banks or the Economy?	Report by the Comptroller General prepared in response to an inquiry by B. Rosenthal (Chrmn. House Subcom. on Commerce, Consumer & Monetary Affairs) concerning OPEC financial activities in the U.S.	U.S. General Accounting Office June 11, 1979
Rating Country Risk	A credit rating of 93 countries. Based on the judgment of 90 participating banks.	Institutional Investor September 1979 p. 243
List of OTC Margin Stocks	List of stocks traded over-the-counter that the Fed.'s Board of Governors has determined to be subject to margin requirements. Supersedes April 2, 1979 list.	Federal Reserve System October 1, 1979
Stocks: Plenty of Life Left	Article citing a number of market analysts who agree the market will rebound, though disagree on when.	Focus October 17, 1979 p. 134
Why Wall Street Looks Oversold	Discussion of current factors favorable to the economy, reasons mainstream investors have been unresponsive to them, and prediction of a market rally.	Economist October 20, 1979 p. 111
Funds Stayed Dry During Market Dive	Article reporting the pension funds managers' stablizing influence on the market during the October 8-12 plunge.	Pensions & Investments October 22, 1979 p. 1

ITEM	DESCRIPTION	SOURCE
A Funny Thing Happened on the Way to the Recession	Brief article on the United States' continued economic growth. Doubts of economists concerning the likelihood of Mr. Volcker's monetary measures stopping inflation are discussed.	Economist October 27, 1979 p. 33
Reduction of Tax on Capital Gains Spurs Investment	Evaluation of the 1978 capital gains tax roll-back finding evidence of a favorable impact, particularly on smaller companies.	Wall Street Journal October 31, 1979 p. 24
The Message from the Gold Markets	Comprehensive report on the ten-year-old U.S. effort to demonetize gold, and how and why it seems to be failing.	Fortune November 5, 1979 p. 54

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REMOVING TAX DISINCENTIVES DOES WORK

HIGHLIGHTS

1. There is strong evidence that the capital gains tax cut passed in late 1978 has been effective in stimulating certain sectors of the economy.

2. The performance of the stock market in 1979 has been in line with projections made last year about the impact of a capital gains tax cut despite generally more dismal economic and international developments than were foreseen.

3. In an Opinion Research Corporation survey of over 500 top and middle managers, one-quarter reported making new or increasing existing investments as a result of the reduction in the capital gains tax cut.

4. The sample respondents favored increasing investments in common stocks over other alternative investment vehicles.

5. Other indicators of the beneficial impact of the capital gains tax cut are: relatively higher price appreciation for the stocks of smaller capitalized companies; an increase in the amount of equity capital raised by smaller companies; and a marked pickup in venture capital investments.

6. Recently, the Senate Finance Committee approved a bill relieving the tax burden on interest and dividend income slightly. Such a bill is consistent with tax measures adopted recently by other nations to spur productivity, employment and competitiveness in world markets.

Introduction

The Revenue Act of 1978, passed last October, produced the first capital gains tax cut in over 40 years. Proponents had argued that the measure would encourage investment and capital formation. But, within the first few months of its passage, attempts were made to discredit the measure based on a lackluster stock market. More recently, former Secretary of the Treasury Blumenthal was quoted as saying that the capital gains tax cut did not lead to the benefits projected by supporters and a recent New York Times editorial supported this viewpoint. In all fairness, the Times article acknowledged that no specific tax policy can work in isolation.1/ Actually, there is strong evidence indicating that the capital gains tax cut has been highly effective in stimulating certain sectors of the economy.

This paper builds on a recent article in the Wall Street Journal which supported last year's reduction in the capital gains tax.2/ It incorporates new data demonstrating that lowering the capital gains tax did lead to specific benefits for the economy.

As the debate over our tax structure continues, questions about the efficiency of the capital gains tax cut are likely to reappear. This debate is likely to intensify during the upcoming Presidential primaries and campaign. Therefore, it is essential that the most comprehensive evidence about the effects of the capital gains tax cut be presented and analyzed.

Comments on the Views of the Critics

The concern about the relationship between the capital gains tax cut and monetary policy was noted by SIA in its comprehensive study of tax policy, investment and economic growth. Two sets of statistical tables were presented for each of the nine tax proposals analyzed in that study.3/ The first set assumed accommodating

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1/ See the New York Times, "Capital-Gains Tax Cut to Nowhere," December 4, 1979, p. A26. The Times noted that the tax cut on capital gains might have worked if there had not been deliberate government policies aimed at increasing the cost of money and slowing down economic growth.

2/ See Edward I. O'Brien, "Reduction of Tax on Capital Gains Spurs Investment," Wall Street Journal, October 31, 1979.

3/ See Securities Industry Association, Tax Policy, Investment and Economic Growth, Chapter 4 and Appendix A, March 1978.

monetary policy while the second set assumed non-accommodating monetary policy. Needless to say, the projected economic results from any of the tax cut proposals under non-accommodating monetary policy were quite modest and considerably less than that projected under the assumption of accommodating monetary policy. This fact is conveniently overlooked by most critics of the capital gains tax cut.

Another point glossed over by some critics concerns the argument that the stock market has not lived up to the expectations of proponents of the capital gains tax cut. Actually, there were wide discrepancies in the predictions by the three organizations which were most active in developing projections concerning the likely impact of a capital gains tax cut upon the S&P 500 Index's performance. The most optimistic forecast was that of Chase Econometrics Associates, which projected that the S&P Index would appreciate about 40% over its level without such a reduction by 1982.4/ Merrill Lynch Economics, Inc. forecasted a much more modest increase -- 4% - 6%,5/ while SIA predicted an increase of 10%. Readers may be surprised to learn that from November 30, 1978 to November 30, 1979, the S&P 500 Index increased 12.1% despite considerably higher inflation and interest rates and generally more dismal economic and international developments than those predicted by almost all forecasts last year. So the criticism that the stock market has not responded as anticipated by supporters of the capital gains tax cut has not been factual.

Investors Increased Their Investment Because of Lower Capital Gains Tax

Earlier this year, SIA commissioned Opinion Research Corporation (ORC) to undertake a survey of reactions by investors to different tax proposals. Although any tax proposal aimed at increasing savings and investment should appeal to all income groups, it is acknowledged that most such additional savings will come from those with higher earnings. Thus, SIA, in consultation with ORC, agreed to utilize ORC's quarterly Executive Caravan Survey, which is a sample of over 500 top and middle managers in the Fortune 800 companies. The October survey was used to evaluate responses to five alternative tax proposals, as well as other questions. One key question was: As a result of the changes in the capital gains tax law, did you make new investments, or increase existing investments during 1979?

4/ Michael K. Evans, "The Economic Effects of Reducing Capital Gains Taxes," Chase Econometrics Associates, Inc., April 17, 1978, p. 7.

5/ Merrill Lynch Economics, Inc., "Economic Impact Analysis of a Capital Gains Tax Reduction," August 22, 1978, p. 4.

The Executive Caravan sample represents a group of individuals particularly knowledgeable on tax regulations and investment alternatives. By understanding the attitudes and preferences of executives and managers, it should be possible to make judgments about the efficacy of alternative tax proposals as well as the capital gains tax cut last year. SIA plans on publishing and distributing the findings from the ORC survey early next year.

Preliminary Survey Results

The survey revealed that almost one-quarter of the sample reported making new or increasing existing investments as a result of the reduction in the capital gains tax. In addition, the respondents favored investment in common stocks over the other investment alternatives available for selection. The findings indicate that 15% of the respondents increased their purchases of common stock compared to 11% investing in real estate, the second highest category for new or increased investment.6/

The survey results also allow for an analysis of how different income groups responded to the capital gains tax cut. Table I classifies the data according to the respondents' incomes. A significant finding is that all of the income groups reported making new or increasing existing investments in response to the change in the capital gains tax law. The proportions ranged from 10% of those respondents with earnings under $30,000 to 36% of the individuals receiving more than $75,000.

The table also shows that investments in real estate were favored over common stocks by respondents with incomes lower than $30,000. But for each income category above $30,000, the proportion of the respondents making new or additional investments in common stocks was larger than for real estate as well as any other investment alternative. Evidently, given the proper incentive, common stocks are very desirable to those with funds to invest.

6/ The other categories of investment and the proportion of the Executive Caravan increasing investments in these categories were: mutual funds and preferred stock -- 3%, corporate bonds -- 1%, futures/options -- 1%, tangible investments -- 1%, tax shelters -- 1%.

Table I

THE RESPONSE TO THE REDUCTION IN CAPITAL GAINS TAXES BY INCOME GROUP

	Income				
	Under $30,000	$30,000-$39,999	$40,000-$49,999	$50,000-$74,999	$75,000 or Over
Percent of respondents who made new or increased existing investments as a result of the capital gains tax cut	10%	22%	18%	28%	36%
As a result of the changes in the capital gains tax, the percent of respondents who invested in:					
Common Stock	0%	12%	12%	17%	25%
Common Stock Mutual Funds and Preferred Stock	2	4	2	3	3
Corporate Bonds	0	1	0	0	2
Futures/Options	2	0	1	1	4
Real Estate	8	5	0	12	15
Tangible Investment	0	2	0	1	2
Tax Shelter	0	0	0	0	2
Unknown	0	0	1	0	1

Another variable used in the analysis was the relationship between additional investment and the value of the securities holdings of the respondents. The data disclosed that of the respondents with securities holdings of less than $25,000, 8% made new or increased existing investments in common stock; 16% of those with securities portfolios between $25,000 and $49,999 raised the level of their investments in common stock; and 25% of the executives with securities holdings of more than $100,000 put additional funds into the stock market. Clearly, the capital gains tax cut influenced many of the respondents to add to their securities holdings and the measure had a more substantial impact on those with larger portfolios. The magnitude of those increasing their stock and other investments is impressive in light of the economic, political and international uncertainties which were so evident.

Other Indicators

In addition to the responses of ORC's Executive Caravan, recent research by SIA has revealed that the main beneficiaries of lower capital gains taxes appear to be smaller companies as well as new venture capital enterprises. There are three principal

early indicators of the effects of capital gains tax cuts: relatively sharper price appreciation for the stocks of smaller-capitalized companies; an increase in the amount of equity capital being raised by companies of all size as well as smaller corporations; and a marked pickup in venture capital investments.

Differences in Price Appreciation

The U.S. stock market offers a broad range of investment opportunities, each associated with a different level of risk and rate of return, ranging from heavily-capitalized issues represented by the Dow Jones Industrial Average and the S&P 500 Composite Index to smaller-capitalized issues represented by the American Stock Exchange Index (AMEX) and the NASDAQ Index. The smaller-capitalized issues are relatively more risky than the larger-capitalized stocks and presumably offer potentially higher returns. Institutional holdings, many of which are exempt from all taxes on income and capital, are predominantly in the larger-capitalized issues while individual investors have tended to invest in the smaller-capitalized stocks. Thus, any reduction in capital gains taxes which applies primarily to individuals should impact upon these two kinds of issues differently.

This is exactly what has happened, as can be seen by the strikingly different rates of appreciation of the indices representing larger and smaller-capitalized companies. From October 31, 1978 (when parts of the revised tax code were scheduled to become effective), to November 30, 1979, the Dow Jones Industrial Average rose only 3.8% and the S&P 500 14.0%; in contrast, the American Stock Exchange Index increased 66.6% and the NASDAQ Index rose 29.8%. Apparently, individual investors valued the stocks of smaller-capitalized and presumably higher profit-potential companies at substantially higher prices since the reduction in capital gains taxes.

Stock Offerings Are Up

Initial public offerings of common stock enable less known companies to raise equity capital. In attempting to measure the impact of tax policies on the level of new issues, there are other economic variables which must be taken into account. The overall stock market climate, which is influenced by many economic and political variables, is probably the most important influence on the level of initial public offerings. In spite of these factors, however, the impact of the tax policy change is clearly visible.

The volume of initial public offerings of common stock in 1978 was higher than any year since 1973 (see Table II). It is interesting that 75% of the value of 1978 initial public offerings was issued in the second half of that year, when Congress' approval of a reduction in the capital gains tax rate was already anticipated. Figures for the first half of 1979 show the value of initial public offerings to be about double the level of recent years.

discussed. Just recently, the Senate Finance Committee approved a bill which would increase the dividend exclusion from $100 for a single taxpayer and $200 for a joint return to $200 and $400, respectively. At the same time, interest receipts would also be eligible for this exclusion from income taxation.

Other nations have adopted tax measures aimed at promoting savings and capital formation to spur productivity, employment and competitiveness in world markets. The French Government, in particular, has developed a series of incentives along this line.8/

The emerging "gut" feeling of policymakers in this country and elsewhere that current tax policies impede savings and capital formation is also supported by the work of academicians. A path-breaking study published by Professor Michael Boskin concluded that policies which raise the after-tax return to capital will increase national income, eliminate an economic loss to society resulting from distortions of the consumption/saving choice and actually redistribute income from capital to labor.9/ Boskin found a positive relationship between savings and the real rate of return on capital. Thus, current tax policies on the returns from capital cause a decrease in savings and investment and a reallocation of consumption from the future to the present. A shift in tax policies away from taxes on capital or personal income to other tax bases will increase savings, capital investment relative to labor input, national income and eventually redistribute more of a larger pie to labor from capital.10/

Conclusion

The debate over Federal tax policy will likely command a great deal of attention from the Congress and Administration during 1980. The emerging evidence indicates that proponents of lower taxes on savings and investment should adopt an aggressive rather than defensive stance. The results of last year's

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8/ For a full discussion of the comprehensive program adopted by the French Government to encourage capital formation, see Rolf E. Wubbels, "The French Economic Miracle: What a Difference Leadership Makes," Financial Analysts Journal, July/August 1979, pp. 23-27.

9/ Michael J. Boskin, "Taxation, Saving, and the Rate of Interest," Journal of Political Economy, April 1978, p. S5.

10/ Ibid., p. S23.

capital gains tax cut are impressive, particularly in light of a very unfavorable macroeconomic environment. Any comparison of tax policies between the U.S. and other major industrialized nations concerning capital gains, interest and dividend income would reveal the U.S. tax treatment as relatively severe. Additional initiatives are required to reverse this country's lagging capital investment and to encourage savings and capital formation.

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STATISTICAL HIGHLIGHTS

Good News at Last -- Almost

The industry in recent weeks has been the recipient of considerable doses of both good news and bad news. The good news involves the industry's earnings performance for the first three quarters of 1979. The bad news involves expected fourth quarter results, which will reflect the huge trading losses incurred in the aftermath of the Federal Reserve's October 6 credit tightening. The market turbulence created by the Fed's moves is known to have caused losses for numerous firms, but, for a variety of reasons, among them the unavailability of fourth quarter FOCUS data, it seems appropriate to discuss the good news first.

For the first nine months of 1979, the industry earned a 16.6% after-tax return on equity. This approaches the 17.6% earned in 1976, but the full year 1979 figure will undoubtedly be lower due to the October bath. Comparing the first nine months of 1979 with those of 1978, revenues increased 21.6%, while expenses increased 21.4%, indicating a slight improvement in profit margins. Despite an increase in NYSE average daily volume from 29.0 million to 31.4 million shares, commission revenues increased by only 1.3%.

Revenues of All NYSE Firms Doing a Public Business
First Nine Months
(Millions of Dollars)

Revenue Item	1978	%	1979	%	Percentage Increase 1979-1978
Commissions	$2,909.2	43.8%	$2,948.2	36.5%	1.3%
Trading & Investment	1,260.4	19.0	1,929.3	23.9	53.1
Margin Interest	795.7	12.0	1,140.9	14.1	43.4
Underwriting	584.5	8.8	574.5	7.1	-1.7
Commodities	244.2	3.7	321.8	4.0	31.8
Mutual Fund Sales	43.2	0.6	55.8	0.7	29.2
All Other	812.0	12.2	1,093.1	- 13.5	34.6
Gross Revenues	$6,649.2	100.0%	$8,087.7	100.0%	21.6%

Aside from the continuing decline of the commission business' relative importance, noted above, the most striking things about the revenue figures are the decline in underwriting income and the tremendous growth in trading and investment profits. The decline in underwriting is not surprising, given the capital market conditions prevalent through much of 1979. The growth in trading profits illustrates partly the rise of the dealer function and partly the

rise of interest rates, since the FOCUS Report fails to isolate accrued interest and dividend income on inventory positions. The securities industry's increasing sensitivity to interest rate fluctuations is also displayed in the rise in margin revenues, since margin debt outstanding actually declined from $12.4 billion at September 30, 1978 to $12.0 billion a year later.

Expenses also demonstrate the industry's growing sensitivity to interest rate fluctuations, since interest expense was by far the fastest growing expense item. Securities firms borrow to finance both margin loans and inventory positions. At the end of the 1979 third quarter, the industry's receivables from customers and long positions amounted to $19.3 billion and $22.6 billion, respectively.

The collapse in securities prices that followed upon the Fed's actions ensures a disappointing fourth quarter, although the magnitude of those trading losses will not be known for several months. The industry's October experience -- which includes a record share volume day, record prime lending and T-bill rates, and the largest and probably most unsuccessful corporate underwriting in memory -- highlights dramatically the increasing risks borne by those in the securities business.

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SECURITIES INDUSTRY STATISTICS

VOLUME

	October 1979	YEAR-TO-DATE 1979	October 1978	YEAR-TO-DATE 1978	% CHG. Y-T-D 1979-1978
AVERAGE DAILY SHARE VOLUME ON					
NYSE (MILS.)*	37.3	32.0	31.0	28.8	11.1%
AMEX (MILS.)*	5.4	4.3	4.5	4.0	7.5
NASDAQ (MILS.)*	15.2	13.9	7.3	10.8	28.7
DOLLAR VALUE OF SHARES TRADED ON					
NYSE (MILS.)	25,434	198,151	19,180	172,330	15.0
AMEX (MILS.)	2,303	15,861	1,458	12,664	25.2
ODD-LOT SHARES PURCHASED ON NYSE (THOUS.)	5,217	47,761	4,616	46,689	2.3
ODD-LOT SHARES SOLD (INCLUDING SHORT SALES) ON NYSE (THOUS.)	10,855	102,894	9,540	94,672	8.7
NYSE BLOCK VOLUME AS A PERCENT OF TOTAL SHARES TRADED	25.8	26.6	19.1	23.5	---
CONTRACTS TRADED (THOUS.)					
CBOE OPTIONS	4,095	29,299	3,521	28,658	2.2
AMEX OPTIONS	2,115	14,273	1,457	12,420	14.9
COMMODITY	7,130	64,396	6,260	47,571	35.4
CBOE and AMEX OPTION VOLUME as a % of TOTAL NYSE VOLUME	72.4	64.2	73.0	66.3	---

* *MONTHLY AVERAGE*

YIELDS

(MONTHLY AVERAGES)

	November 1979	November 1978	Basis Point Chg. 1979-1978
BOND BUYER INDEX (20 BOND)	7.30	6.29	101
CORPORATE BOND YIELDS (MOODY'S)			
Aaa CORPORATE	10.76	9.03	173
Baa CORPORATE	11.99	9.83	216
RATIO Aaa CORPS. TO Baa CORPS.	0.90	0.92	---
MUNICIPAL BOND YIELDS (MOODY'S)	6.49	5.59	90

PRICES

(END OF MONTH)

	November 1979	November 1978	Percentage Change
DOW JONES INDUSTRIALS	822.35	799.03	2.9%
STANDARD & POOR'S 500	106.16	94.70	12.1
NYSE COMPOSITE	60.71	52.89	14.8
AMEX MARKET VALUE INDEX	227.78	148.39	53.5
VALUE LINE COMPOSITE	117.56	97.60	20.5
NASDAQ COMPOSITE	144.26	114.69	25.8

UNDERWRITING
(DOLLARS IN MILLIONS)

	October 1979	Year-to-Date 1979	October 1978	Year-to-Date 1978	Absolute Change 1979-1978	% Change Yr-to-Date 1979-1978
CORPORATE FINANCING (Gross New Issues)						
Total	3,766	31,773	3,585	27,258	4,515	16.6%
Competitive	970	5,803	972	6,699	-896	13.4
Negotiated	2,796	25,969	2,613	20,559	5,410	26.3
Common Stock	802	4,678	1,006	5,388	-710	13.2
# Of Common Stock Issues	33	256	39	237	19	8.0
Preferred Stock	135	1,525	---	1,490	35	2.3
# Of Preferred Stock Issues	4	43	---	33	10	30.3
Corporate Debt	2,829	25,570	2,579	20,380	5,190	25.5
# Of Corporate Debt Issues	25	292	29	319	-27	8.5
MUNICIPAL FINANCING* (Gross New Issues)						
Total	4,521	51,648	4,545	56,923	-5,275	-9.3
Notes	476	17,471	1,273	18,588	-1,117	-6.0
Bonds	4,045	34,177	3,272	38,335	-4,158	-10.8
# of Bond Issues	324	4,283	390	4,250	33	-0.8
Negotiated Bonds	2,301	18,270	1,238	19,992	-1,722	-8.6
Revenue Bonds	2,981	23,461	1,994	23,351	110	0.5

*Preliminary Figures

MUTUAL FUNDS
(DOLLARS IN MILLIONS)

	October 1979	Year-to-Date 1979	October 1978	Year-to-Date 1978
NET SALES*	-214.1	-2,030.2	-179.8	-1,556.7
NET PURCHASE OF COMMON STOCK*	- 32.0	-2,633.3	- 30.1	-1,182.9
NET PURCHASE OF OTHER SECURITIES*	- 27.3	- 662.6	-205.9	- 655.5
MUTUAL FUND CASH POSITION	9.3%	---	8.8%	---

*EXCLUDES MONEY MARKET, MUNICIPAL BOND AND OPTION FUNDS

MARGIN DEBT

	October 1979	October 1978	Percentage Change
MARGIN DEBT OUTSTANDING ($MILS)	11,310	12,090	-6.5%
NET CHANGE IN MARGIN DEBT ($MILS)	-690	-310	---
% OF ACCOUNTS WITH EQUITY UNDER 40%	13	21	---

FINANCIAL DATA FOR NYSE FIRMS DOING A PUBLIC BUSINESS
(MILLIONS OF DOLLARS)

	Third Quarter 1979	Third Quarter 1978	Percent Chg. 3rd Q. 1979-3rd Q. 1978	Year-to-Date 1979	Year-to-Date 1978	Percent Chg. Y-T-D 1979-Y-T-D 1978
REVENUE						
SECURITIES COMMISSION INCOME	$1,099.1	$1,151.5	-4.6%	$2,948.2	$2,909.2	1.3%
REALIZED AND UNREALIZED GAIN OR LOSS IN TRADING AND INVESTMENT	649.9	494.6	31.4	1,929.3	1,260.4	53.1
PROFIT OR LOSS FROM UNDERWRITING AND SELLING GROUPS	213.4	237.7	-10.2	574.4	584.5	-1.7
TOTAL REVENUE	2,966.9	2,609.9	13.7	8,087.7	6,649.2	21.6
TOTAL EXPENSES	2,626.6	2,259.5	16.2	7,226.4	5,953.2	21.4
NET INCOME BEFORE TAXES	340.4	350.4	-2.9	860.2	695.9	23.6
PERCENT OF FIRMS SHOWING LOSS	14.4	5.9	---	---	---	---

SOURCE: FOCUS REPORT X-17A-20

RECENT INTERESTING READING AND STATISTICAL MATERIAL

ITEM	DESCRIPTION	SOURCE
Why the Experts are Nearly Always Wrong	A chapter excerpted from Contrarian Investment Strategy (D. Dreman). Author maintains stock market experts are predictably incorrect due to man's limitations as an information processor. Recommends random selection of stocks with low price/earnings ratios.	Forbes November 26, 1979 p. 117
A Grim Securities Industry Looks to a Restructuring	A one-page look at the problems facing the industry. Author urges Wall Street to work more closely with the banks and the federal government.	Business Week December 3, 1979 p. 103
Can We Stop Inflation?	Beginning with an overview of the rise of demand-side economics, this sixteen page report outlines the inflationary effects of the Keynesian premise that a built-in tendency to overproduce necessitates governmentally-stimulated consumption. Removal of production disincentives is suggested as a method of creating employment without inflation.	Paine Webber Annual Report 1979
Building a Better Future: Economic Choices for the 1980's	A study by NYSE economists, in cooperation with Wharton Econometric Forecasting Associates, of the U.S. economy's anti-investment bias and lagging productivity. Computer simulations show the likely impact on the nation's economy in the 1980's of various pro- and anti-investment tax policies.	New York Stock Exchange, Office of Economic Research

ITEM	DESCRIPTION	SOURCE
The Bomb IBM Dropped On Wall Street	Detailed account of the underwriting of IBM's ill-timed first debt issue. Discusses loss estimates and what the effect of a different pricing strategy might have been, as well as how this issue may affect future IBM offerings.	Fortune November 19, 1979 p. 52
Why Thrift has Become a Bad Joke in America	Brief article reporting the defection of Americans from savings institutions due to interest rates insufficient to counteract inflation. Relates efforts of banks, from legislation to promotional gimmicks, to fight the trend.	The Economist November 10-16, 1979 p. 101
British Stock Market: Freedom Hurts	A short piece detailing the abolition of exchange controls' negative effect on the British equity market. The future trend in interest rates is now the key to the market's level.	The Economist November 10-16, 1979 p. 101
A Long Road to New Underwriting Rules	Overview of the current debate on fixed-price underwriting.	Business Week December 3, 1979 p. 46
Verdict on the Volcker Measures	Interview with six banking executives on the expected impact of Paul Volcker's effort to tighten monetary credit.	Euromoney November 1979 p. 44
Japan's Securities Market 1980	A thirty-page report on principal trends of the securities market, concentrating on major developments in 1979. Numerous graphs support a text which includes summaries of structural changes in the economy, the health of the stock and bond markets, and the composition of shareholders.	Securities Public Information Center of Japan 1979

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